

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6849

BILL NUMBER: HB 1606

NOTE PREPARED: Dec 30, 2002

BILL AMENDED:

SUBJECT: Historic Restoration Tax Credit.

FIRST AUTHOR: Rep. Whetstone

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: The bill provides that the income tax credit for the preservation or rehabilitation of an historic residential property is to be determined using a percentage that starts at 20% and is increased by 0.1% for each year that the age of the historic residential property exceeds 50. The bill repeals a provision recapturing the credit if the historic residential property is sold within 5 years. The bill also repeals the fiscal year cap on the amount of tax credits that may be granted.

Effective Date: January 1, 2004.

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the changes to the tax credit. The Division of Historic Preservation and Archeology in the Department of Natural Resources (DNR) could potentially incur increased costs of administering the tax credit application and certification process as changes in the bill increase the number of historic property owners who attempt to obtain the tax credit. The increase in the percentage tax credit available to taxpayers from 20% to a possible 35% and the repeal of the recapture provision could increase the potential response to the credit by taxpayers. These expenses presumably could be absorbed by both agencies given their existing budgets and resources. The repeal of both the recapture provision and the fiscal year cap on the tax credit would eliminate administrative tasks, the cost of which is presumably already built into the budgets of both agencies.

Explanation of State Revenues: The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of individual taxpayers who rehabilitate a historic residence and either who obtain a tax credit in excess of the 20% credit currently authorized or who otherwise would not have applied for the credit due to other

changes in the bill (i.e., the elimination of the recapture provision). The revenue loss due to this bill is indeterminable but could potentially affect AGI Tax revenue beginning in FY 2005.

Background: Current law provides for an AGI Tax credit for individual taxpayers who complete preservation and rehabilitation work approved by the Division of Historic Preservation and Archeology on their principal residence. The property must be at least 50 years old and listed on the register of Indiana historic sites and structures. The credit is equal to 20% of the qualified preservation and rehabilitation expenditures, and such expenditures must exceed \$10,000. Current law also caps the total credits that may be certified by the Division in any fiscal year at \$250,000. Current law also provides that the tax credit must be recaptured by the state if less than five years after the preservation and rehabilitation work either: (1) the property is transferred or (2) other modifications are made to the property that fail to meet Division standards. Under the bill, the tax credit would increase by 0.1% for each year that the age of the property exceeds 50 years of age. This would mean the credit would be 25% for a 100-year-old property, 30% for a 150-year-old property, and the maximum 35% for a 200-year-old property. The bill also eliminates the \$250,000 fiscal year cap on certified tax credits and the recapture provision.

Since the tax credit was just initiated in FY 2002, existing experience provides no basis for projecting the impact of the above changes. However, the change in the credit rates likely will increase the cost of the credit since properties on the register of historic sites and structures are generally over 50 years old. The vast majority of buildings on the register are 70 to 120 years old (built from 1880 to 1930). So far, the Division of Historic Preservation and Archeology certified three tax credits totaling \$62,050 in FY 2002 and four tax credits totaling \$27,000 during the current fiscal year. Overall, only 14 tax credit applications have been received by the Division since the tax credit was initiated. The response to the residential credit so far may be a function of slow start-up. However, the administrator of the historic rehabilitation tax credits indicated that a greater response to the tax credit was expected. In comparison, historic rehabilitation tax credits for business real property annually are certified to the maximum of \$450,000 per fiscal year. There are reportedly two and a half times as many historic residential properties as historic business properties. Thus, the residential historic rehabilitation tax credit could potentially exceed the totals for the business tax credit after a start-up phase.

Since the tax credit changes are effective beginning in tax year 2004, the fiscal impact would begin in FY 2005. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue, Division of Historic Preservation and Archeology.

Local Agencies Affected:

Information Sources: David Duvall, Division of Historic Preservation and Archeology, Department of Natural Resources, (317) 232-1635.

Fiscal Analyst: Jim Landers, 317-232-9869